

February 6, 2015

Dear clients and colleagues,

Quantitative Easing has been flooding the world with massive amounts of capital. One type of money supply is actual cash. Despite the rapid growth of alternative payment methods, growth rates for the volume of cash in circulation in the US, Europe, Japan, and China are 3.5%, 5.7%, 1%, and 15%, respectively. And stricter compliance regulations have forced banks to use better money-handling machines in order to increase accuracy, efficiency, safety (counterfeit), and automation.

This week we will profile Glory, a Japanese company in the portfolio since 2013 that benefits from the above trend.

Glory Ltd. (6457 JP - ¥3,020)

www.glory-global.com

Business Overview

Founded in 1918, Glory is a pioneer in the development and manufacture of money-handling machines and systems. It produced Japan's first coin counter and banknote recycler, and has since built out its leading-edge recognition/identification and mechatronics technologies.

Glory provides a variety of products such as money-handling machines, cash management systems, vending machines, automatic service equipment, and cash management solutions. It serves the financial, retail, and amusement industries in over 100 countries with 9 000 employees worldwide. 40% of sales are from overseas.

The acquisition of Talaris in 2012 transformed Glory into a global market leader. Talaris is a leader in money-sorting equipment from the UK and has operations in 22 countries. The deal created significant synergies, allowing for Glory products to enter Talaris' sales channels and for cost reductions via the streamlining of bases and joint purchasing.

ESG

Glory has a very stable and experienced management team. Its president, Mr. Onoe, joined the company in 1970. Treasury and employee holdings account for 7% of the outstanding shares, ensuring that interests are aligned with shareholders.

Glory has many environmental and social initiatives. For example, a new product called the "Money Changer EN-700" can reduce CO₂ emissions by 30%, as compared to a conventional model. Among many other awards, Glory received "The Outstanding Performance Award" at the contest of "The 22nd Environment-Friendly Company Awards" held by the Hyogo Prefectural Government of Japan in 2013.

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Glory is investor-friendly as well. It received a bronze prize in the Gomez Investor Relationship Site Ranking in 2014. The dividend payout ratio has been steadily increasing. It has also conducted share buyback programs.

Market Data

Market Cap \$1.8B, Net debt/Ebitda 0.5x, Div yield 1.6%, Ev/Sales (2016/3) 1.0x, Ev/Ebitda 6.4x, P/E 15.7x, Gross margin 40%, Operating margin 7.7%, Profit margin 4.6%, ROE 6%

Target Market

Financial institutions worldwide are Glory's main target customers. There are approximately 57 000 financial institutions in Japan, 115 000 in the US, 170 000 in Europe, and 190 000 in China.

In developing countries, cash automation is still relatively new. However, cash volumes in these regions have been rising rapidly and this is boosting demand. The volume of cash in China is roughly six times higher than it is in Japan and it is growing at 15% per year.

Competition

Domestic retail market: Toshiba TEC, Fuji Electric

Domestic amusement market: Nippon Game Card, Mars Engineering

Overseas market: Giesecke & Devrient, CTS

Competitive Advantages

- Two technologies: recognition/identification and Mechatronics (mechanics + electronics)
- 60% global market share of teller automation
- 75% market share of teller automation in financial and retail sectors of Japan
- 60% market share in four big Chinese banks

Growth Strategy

- Distribution: especially focused on Chinese market
- New product development
- New business: e-settlement services, commercialization of biometric authentication and conversation privacy protection technologies.

Risks

- Forex fluctuation
- Capex constraints in financial institutions

Looking ahead, overseas markets will continue to be the growth driver for Glory. In Japan, replacement demand is picking up this quarter. We expect profits to grow by 20% in FY2015/3.

Have a nice weekend.

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The Global Alpha Team

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